

VZCZCXYZ0025
PP RUEHWEB

DE RUEHCV #1304 2621434
ZNR UUUUU ZZH
P 181434Z SEP 08
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC PRIORITY 1809
INFO RUEHBO/AMEMBASSY BOGOTA 7856
RUEHLP/AMEMBASSY LA PAZ SEP LIMA 1083
RUEHQT/AMEMBASSY QUITO 2897
RHEHNSC/NSC WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

UNCLAS CARACAS 001304

SIPDIS

HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MMALLOY
NSC FOR JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [VE](#)

SUBJECT: VENEZUELA'S PARALLEL EXCHANGE RATE RESUMES ITS RISE

REF: A. CARACAS 376
[1](#)B. CARACAS 1127
[1](#)C. CARACAS 1274

[1](#)1. (U) After remaining largely stable since March, Venezuela's parallel exchange rate has jumped by more than 40 percent over the past month, from 3.4 bolivars (Bs) to the dollar on August 14, to 4.8 Bs/USD as of September 15. The BRV has been regularly intervening in the parallel market since November 2007, attempting to reduce inflationary pressures by selling dollar-denominated instruments for bolivars in local markets with the aim of lowering monetary liquidity and increasing the supply of dollars (ref A). However, the BRV has not sold any of these instruments since early August, and press reports hinting at possible sales have so far had little effect on the rate. The sudden rise in the parallel rate also follows recent BRV actions that have likely raised concerns about the future of the Venezuelan economy and increased demand for dollars, including the issuance of 26 decree laws increasing state control of the economy (ref B) and Chavez's September 11 announcement expelling the US Ambassador (ref C).

[1](#)2. (SBU) Comment: The recent runup in the parallel exchange rate probably does not indicate an end to BRV intervention in the market, but it could reflect a change in priorities at the Ministry of Finance. Keeping the rate steady for five months did not remedy Venezuela's persistent inflation. The BRV has already expended all but about USD 650 million worth of the structured debt notes it has been using as one of its tools to control the market, and consistent intervention could prove increasingly costly in the future. Nevertheless, the BRV is unlikely to ignore the market completely and risk allowing the parallel rate to rise to levels similar to those seen at the end of last year. Local analysts think another sovereign debt issuance payable in bolivars is possible before the end of 2008. Such an issuance could absorb some of the excess liquidity expected from spending in advance of the November elections and reign in the parallel rate by increasing the supply of dollars.
CAULFIELD